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TAGS: [ECON](#) [EFIN](#) [PREL](#) [PGOV](#) [EI](#)
SUBJECT: IRISH GOVERNMENT ANNOUNCES BANK GUARANTEE DETAILS

REF: A. DUBLIN 556
[1](#)B. DUBLIN 571

Classified By: PEO Chief Ted Pierce. Reasons 1.4 (b/d).

[1](#)1. (U) Summary: On October 15, the Irish government laid out the details of the bank guarantee plan it announced on September 29 (Ref A). The key provision is that the banks will pay the Irish government Euro 1 billion over the two-year life of the guarantee. Since the announcement of the guarantee, five foreign-owned banks have been included in the scheme. The plan gives the Minister of Finance broad powers over the banks. The parliamentary opposition expressed several concerns, including the "low" level of charges to the banks. End Summary.

[1](#)2. (U) Following consultations with EU officials, the Irish government on October 15 released the details of the bank guarantee plan that it announced on September 29. The banks will pay Euro 1 billion over the two years of the guarantee in order to reimburse the Irish government for the higher borrowing costs the state will incur as a result of taking on this additional liability. In theory, this will insulate the Irish taxpayer from the effects of the scheme. Details on how much each of the covered banks would pay were not divulged but the amount paid will be a function of the "long-term credit ratings" of each bank. In other words, the riskier the loan portfolio, the higher the payment. Since the announcement of the plan, the Irish government has included five foreign-owned banks in the plan (Postbank, Ulster Bank, HBOS, First Active, and IIB Bank).

[1](#)3. (U) Finance Minister Brian Lenihan will have significant powers to monitor the plan. Among other provisions, each bank will be required to appoint one or two of the Minister's nominees to its board; the Minister can limit new lending and deposit growth; he can cap maximum loan-to-value on mortgages and other loans; and he can set rules on dividends and share buybacks. Finally, the banks will be prohibited from passing on the cost to customers "in an unwarranted manner" and an independent committee will be set up to oversee salary and other benefits to senior executives at the banks. Lenihan stated publicly that their pay should be capped at Euro 500,000.

[1](#)4. (U) The parliamentary opposition expressed several concerns with the draft plan. Richard Bruton, Fine Gael finance spokesperson, said that the "charges (to the banks) are surprisingly low" and that the role of the publicly-appointed members of the banks' boards was "far from clear." Labour Party finance spokesperson Joan Burton complained that there is "no indication that any senior bankers will be resigning," and that it was unclear to her how salaries would be limited. The Irish parliament will have to approve the draft plan but, as yet, the scheme is not on the schedule for debate.

Comment

15. (C) We expect the political opposition to use the parliamentary debate on the plan to tarnish the government's handling of the economy. That said, we expect the government to successfully push the plan through as quickly as possible. The looming issue that was not touched on in the government's announcement yesterday is the solvency of the Irish banking system. Given the tight fiscal situation the government finds itself in (Ref B), it would have a difficult time coming up with sufficient funding to rescue collapsing banks without calling on the Irish taxpayer.
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